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Military Market

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CONG INFO SVC-STAT REF
KEVIN KENDRICK
4520 E WEST HWY-6800
BETHESDA MD 20814

You're Invited

to the Coast Guard's Bicentennial Party

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AUGUST 1989 VOL. 40, NO. 8

News

☐ Although 1988 sales and dividends were up, AAFES' contribution to the services' MWR funds was below what had been planned: Fiscal 1988 earnings were down an estimated 18 percent. ☐ Brig. Gen. James S. Hayes, TSA boss, who was slated to head up DPSC, abruptly announced his plans to retire. ☐ Jones Commission asks for more time to finish its job. ☐ Armed Services wants the military in Korea to stop harassing commissary and exchange customers in the name of cracking down on black marketing. ☐ So, you were worried? President Bush signed the emergency funding bill, rescuing AAFES from its overseas transportation crisis. 4

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COVER PHOTO BY RICH MASON; DESIGN BY MARTY BAUMANN; CAKE BY LEE CATERERS, McLEAN, VA.

SNACK FOODS

Snacks Go Up, Up, Up,

But Not in Commissaries

Everywhere else, sales of salted snacks and candies have increased.

Snack sales in commissaries have lost their crunch.

At the same time, sales of candy and salty snacks are making some noise in the civilian sector. The Snack Food Association reports "significant growth" for salty snacks in 1988 — record retail sales of $10.28 billion. Pound volume of salted snacks rose 2.1 percent, while dollar sales were up 4.1 percent.

The same trend was true for candy sales. According to American Consulting Corp., which calculates shipments and sales based on Census Bureau information, candy shipments and dollar sales each increased by about 4 percent between 1987 and 1988.

But commissary data move in the opposite direction.

According to Military Audits of Market Information (MAMI), the total pound volume of salty snacks sold in commissaries in 1988 was 32,079,000 pounds — down 3.7 percent from 1987. Dollar sales in the same period were $62,005,000, a 2.5-percent drop.

For the 12 months ending in December 1988, total ConUS chocolate candy sales were $44,535,000, according to MAMI. This was a 3.2-percent decrease from the year before. In terms of unit sales, the decline was 4.1 percent for all commissaries.

The drop in dollar sales of candy was biggest in Navy commissaries, possibly because of a transfer of sales to package stores. There, MAMI data showed sales were down 8.5 percent. Army commissaries saw a 4-percent decrease, while Air Force stores lost only .9 percent.

For 1989, *The Confectioner* estimates that the number of pounds of candy shipped will be about 3 percent greater than in 1988. Dollar sales should go up about 3.3 percent. According to the magazine, 1.8 percent of confectionery factory sales goes to the government or military.

With sales of snacks on the rise in commercial stores, why are they declining in commissaries?

One explanation could be that shoppers are buying more snack items in exchanges, shoppettes and package stores.

In the Army and Air Force Exchange Service, sales of salty snacks are up about 6 percent to 7 percent, as estimated by Jack Pegues, senior buyer for candy, snacks, tobacco and soda. He said that candy growth is about 2 percent to 4 percent.

In the Navy Resale and Services Support Office, exchange sales of candy and confections were up 2.6 percent in 1988.

AAFES' Pegues stressed the importance of merchandising when it comes to increased sales. "Snack sales are very impulse-oriented. The more you make them available, the better sales you'll have."

Industry experts agree with Pegues' analysis.

Jim Echeandia, co-owner of American Consulting and co-publisher of *The Confectioner*, believes it's important to devote enough space to the singles candy section. This is because even the 20th best-selling singles candy probably outsells most other individual items in the store.

"There is a tendency — misguided, according to the experts — to reduce the singles display area in line with 'clean front-end appearance' or 'lower sight lines,' or to earn display allowances from other product categories," Echeandia wrote recently. "In most instances, this is a very expensive decision."

Army and Air Force commissaries follow this clean front-end philosophy. Lisbeth Echeandia, co-publisher of the magazine, told MILITARY MARKET that when stores, such as commissaries, keep checkouts clear of candy, they are losing money. "There's an opportunity for tremendous sales. Candy is primarily an impulse item."

NAVRESSO, which does merchandise candy at the front end of commissaries, reports that the front-end racks "contribute significantly to the category growth." On the exchange side, more candy sales are generated at the front end than from the regular gondolas.

Snack sales are more seriously affected by not-in-stocks than are other categories. "The point is that a hole on the candy shelf loses you more than a hole in most other sections," said John Phipps, director of consumer products consulting for Touche Ross & Co., at a convention of the National Grocers Association.

Therefore, another reason for declining commissary snack sales could be lost opportunities at the front end or poor in-stock positions. Military shoppers may be prompted to buy snacks in civilian stores, rather than on base.

Reports by Karen McBeth, Associate Editor

SNACK FOODS

Sweet Mergers, New Items

Biting into a bar of plain chocolate is rather like the candy industry itself — solid, predictable and familiar. *The Confectioner* magazine reports that, of the top-50 candy bars in today's market, 44 percent were introduced more than 50 years ago. Only 10 percent have been introduced within the past 10 years.

Hershey Food Corp.'s first place in the industry melted away during the '70s, when long-time competitor M&M/Mars Inc. took the lead in market share.

But last August, Hershey bounced back after it acquired the U.S. confectionery division of Cadbury Schweppes Foods. According to American Consulting Corp., the acquisition gave Hershey about a 21-percent share of the total candy market, while Mars held at 18.5 percent.

Nielsen data show that, for the chocolate candy category, Hershey/Cadbury holds 43 percent of the dollar share, while M&M/Mars stands at 36 percent.

In the commissary market, the shares of the two leaders are very close — MAMI data show Hershey/Cadbury with 37 percent of the chocolate dollar share, while Mars has 36 percent.

The other contenders in the chocolate category are far behind: MAMI lists Nestle with a 5-percent dollar share, while Planters Lifesaver has 4 percent. All other manufacturers combine to hold 18 percent.

Based on the 12-month package sales ending in March 1989, the top 10 candy items according to MAMI are:

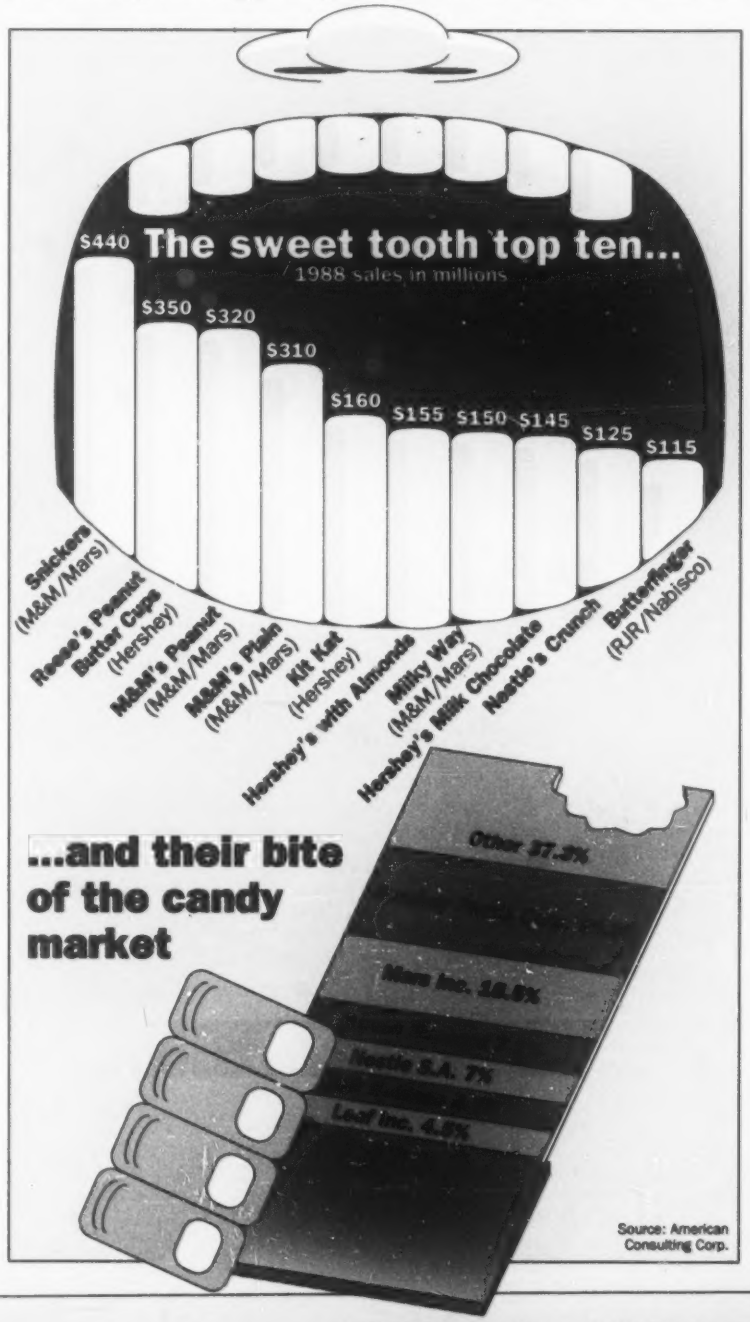
#1 — Snickers 16 oz. snack size;
#2 — Peanut M&Ms 16 oz.;
#3 — Snickers 6-pack;
#4 — Plain M&Ms 16 oz.;
#5 — Hershey Kisses 14 oz.;
#6 — Reeses Peanut Butter Cup 6-pack;
#7 — Hershey Miniatures 14 oz.;
#8 — Milky Way 16 oz. Snack size;
#9 — Reeses Peanut Butter Cup 13.8 oz. snack size and
#10 — Kit Kat 6-pack.

The Troop Support Agency reports that in a typical large store (sales $2.8 million a month), monthly item movement is 27,771 units, with approximate dollar sales of $27,000. This is .98 percent of overall dollar sales and 1.31 percent of overall item movement.

The Hershey acquisition wasn't the only one to change corporate market shares. Leaf Inc., a small company that has acquired traditional candies like Good & Plenty, Milk Duds and Clark, already this year has gained four percentage points in the overall non-chocolate market. According to the *Wall Street Journal*, Leaf now holds 20 percent of that category, and "is fast evolving into a major competitor in the U.S. candy market."

It is possible that the KKR acquisition of Nabisco may lead to the sale of the Baby Ruth and Butterfinger lines, according to American Consulting's Lisbeth Echeandia, co-publisher of *The Confectioner*. She also sees consolidation at the retail level.

The market share shakeup could be good for new product introductions.



Mars, which for many years relied on a few big-sellers like Snickers, is now churning out new candies. James Echeandia, co-owner of American Consulting and co-publisher of *The Confectioner*, describes the company's output as "an unheard of barrage" of new products.

"In the next 12 months, we'll probably introduce more new items and more exciting items than we did in the past 10 years," national military sales manager Jim Finelli told MILITARY MARKET.

In January, the company brought Bounty — a bar similar to Hershey's Mounds — from Europe to the U.S. without testing it first; national distribution was scheduled to be complete in July. A cereal bar called Balisto is in test in the Midwest, although no military stores are involved. PB Max is a peanut-butter product similar to Reese's Peanut Butter Cups. Finelli said it will roll national in the military next year.

Peanut butter M&Ms, which unlike Reese's Pieces have chocolate, are being tested in several East Coast test markets. Finelli said they will roll either nationally or regionally. The military hasn't been involved in the test. The company is now launching Suissande, a premium chocolate line for adults. Finelli said that Mars is also adding some new Christmas candies: M&Ms with mint and with almonds inside.

To top it off, *Advertising Age* reports that a new flavor of Snickers is under consideration.

Hershey isn't sitting idle. James Nolan, national accounts manager, government, said a new, upscale, European-style chocolate bar called Symphony is going national in September. Chip Away, a chocolate-covered cookie bar, is being tested in civilian and military stores in California.

Nolan said that the Peter Paul/Cadbury lines have "fit very nicely" with the Hershey brands, and military buyers have been pleased with the way the products line up together.

The Confectioner reported that Nestle is testing a candy called Twiffics, a bite-sized piece shaped like a corn chip, with a wafer center covered with milk and dark chocolate.

According to the Echeandias, the price of candy bars will rise to at least 50 cents, while 60-cent or 65-cent pricing will be common. Premium adult and seasonal confections will be the strongest growth segments. Low-calorie, low-fat candies will start slowly and gain popularity.

Popcorn Makes Big Jump

Potato chips continue salted reign.

Despite a potato shortage caused by last summer's drought, potato chips and other salted snack foods bagged big sales gains last year.

Popcorn saw the biggest jump: a 28.4-percent increase in dollar sales of microwavables and a 23.3-percent increase in sales for pre-popped popcorn. According to the Snack Food Association (SFA), sales of unpopped popcorn sales "have clearly been hurt" by microwavable popcorn. They dropped 7.8 percent in dollar sales and 8.4 percent in pounds.

At least one of the commissary services has organized shelfspace to account for this trend. The Air Force Commissary Service planogram for popcorn devotes 58 out of its 80 facings to microwavable items. MAMI data showed unpopped popcorn, which includes microwavable, as growing 14.2 percent in dollar sales.

Potato chips are still the largest category in the salted snack industry, although they did lose share points last year relative to other categories. The drought may have been a factor, because last fall manufacturers began to cut back on promotions and raise prices, according to the SFA.

Brian Kennedy, sales director for Borden Inc., explained that commissaries also saw price increases for potato chips during autumn, but some of the prices were brought back

IN THE NAVY —

Top-ten candies in commissaries:

1 — Snickers
2 — M&M Peanuts
3 — Snickers (six pack)
4 — M&M Plain
5 — Hershey Kisses
6 — Hershey Peanut Butter Cups
7 — Hershey Miniatures
8 — Milky Way
9 — Kit Kat (six pack)
10 — Reeses Peanut Butter Cups

. . . and top-ten candies in exchanges:

1 — Snickers
2 — Reeses Peanut Butter Cups
3 — M&M Peanuts
4 — Kit Kat
5 — M&M Plain
6 — Hershey With Almonds
7 — Milky Way
8 — Twix
9 — Three Musketeers
10 — Butterfingers

SOURCE: NAVRESSO

IN THE ARMY —

Top-ten chocolate candies in commissaries:

1 — Snickers (snack size)
2 — Hershey Kisses
3 — Milky Way (snack size)
4 — Reeses Cups (snack size)
5 — M&M Peanuts
6 — Hershey Miniatures
7 — M&M Plain
8 — Snickers (king size)
9 — Three Musketeers (snack size)
10 — Snickers (six pack)

SOURCE: TCA; rankings are for an average large commissary.

down in the spring. "It's getting closer to an even keel based on moderate levels [of potatoes] because of the drought. But with the raw potato yield down, prices are still higher than they were a couple of years ago." He said that this year, some farmers in the South planted early in the hopes that an early yield would ease the shortage. But a lot of rain and a late frost have already hurt that crop.

The potato chip category overall still saw a 3.9-percent gain in pound volume and a 4.8-percent increase in dollar sales.

Sales of tortilla chips increased 3.9 percent in pound volume and 2.4 percent in dollar sales. Pork rinds — Presidential favorite, saw sales gains of 16.4 percent in pound volume and 11.4 percent in dollar sales.

Categories which lost sales in 1988 were snack nuts, corn chips, pretzels and meat snacks. Sales of snack nuts fell 9.4 percent in pound volume, while corn chips' pound volume dropped 4.6 percent and extruded snacks suffered a 2.7-percent decrease. Pretzel sales were up slightly in dollars but down slightly in pound volume.

The military saw some of the same declines — and more.

According to MAMI data for the 12 months ending in December 1988, dollar sales of potato chips were down 3.8 percent. Snack nuts dropped 9.7 percent; tortilla chips dollar sales declined by a half percent. Corn chips and pretzels both declined 2.1 percent in dollar sales. Sales of nutritional snacks and meat snacks were nearly flat.

Dried fruit sales were up 2.3 percent, and the cheese puff category grew 1.8 percent.

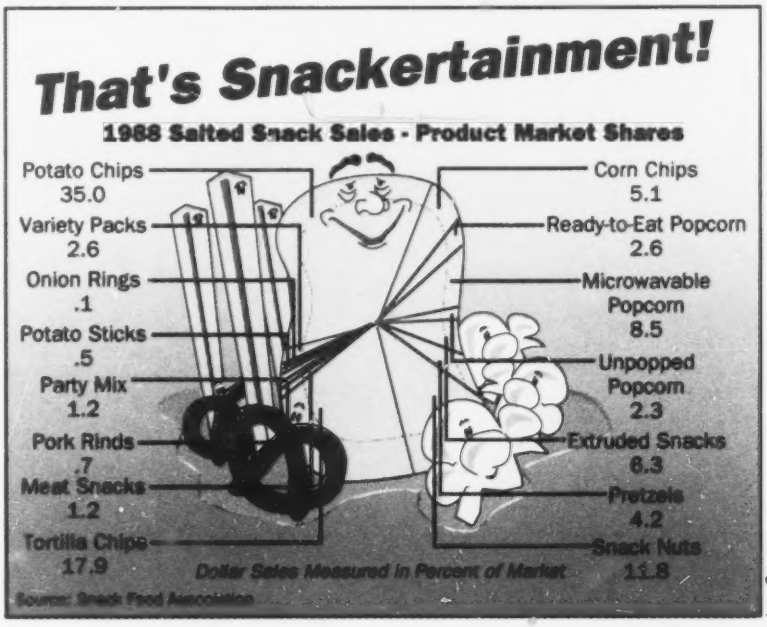
Shoppers in the different commissary systems displayed disparate tastes in snack items:

- For example, potato chips lost more sales in AFCOMS than in Army or Navy commissaries.
- Snack nuts declined the most in the Troop Support Agency. The agency reports that monthly item movement for snack nuts in a typical large store is 4,700 units, or $8,200. The top-seller in that store is Eagle Honey Roasted Peanuts. Planters Cocktail Peanuts are second.
- Sales of nutritional snacks were down in TSA and AFCOMS, but up in the Navy Resale and Services Support Office.
- Most of the decline in tortilla chip sales was seen in TSA. That agency reports that in a typical large store, total snack food monthly item movement is 2.57 percent of overall dollar sales and 2.37 percent of overall item movement.
- Miscellaneous salty snack sales were down in TSA and AFCOMS, but sales of these items were up 4.1 percent in NAVRESSO.
- Dried fruit dollar sales were up in TSA, down in AFCOMS and NAVRESSO.
- Sales of meat snacks were down 9.8 percent in TSA, but they were up 4.8 percent in AFCOMS and 1.7 percent in NAVRESSO.

MAMI reports that, based on the 1988 12-month package sales, the top-selling products were:

#1 — Doritos 16-oz. Nacho Tortilla Chips;
#2 — Ruffles 13-oz. potato chips;
#3 — Frito-Lay 12-pack variety pack;
#4 — Lay's 15-oz potato chips;
#5 — Doritos 12-oz. Nacho Tortilla Chips;
#6 — Fritos 17-oz. corn chips;
#7 — Pringles 7.5-oz. chips;
#8 — Cheetos 8-oz. Cheese Puffs;
#9 — Pringles 6.5-oz. Light Chips and
#10 — Tostitos 16-oz. Traditional Tortilla Chips.

In new snack news, the additions are mostly extensions to existing lines.



FRITO-LAY

According to the SFA, Frito-Lay began testing low-oil Ruffles potato chips and Cheetos in late August last year, and the test is continuing. A company spokeswoman said that the new Doritos Lights were rolled into 60 percent of the country in April.

Advertising Age reports that the company soon will move into several markets with cannister-packed versions of its popular salty snacks. The cannister line has been testing quietly in Orlando, Fla., for about nine months.

BORDEN

Borden's Kennedy told MILITARY MARKET that the Krunchers! line is the fastest growing product for the company right now. He said it will soon be available in additional markets. The SFA reports that Krunchers earned $35 million in 1988 and that Borden has identified the product as a future national brand.

According to *Ad Age*, Borden is testing Wise Choice low-salt, no-cholesterol popcorn in New York and New England — soon to roll down the Eastern Seaboard.

M&M/MARS

M&M/Mars has added two new flavors to its Combos line: These are pepperoni-and-cheese and sausage-and-cheese, and they have a pizza crust instead of pretzel or cracker.

Jim Finelli, national sales manager, military, told MILITARY MARKET, "Combos are going wild in the military." He said Combos saw 50-percent growth in the civilian industry and double that growth in the military.

The success of the heathful snack items is under debate. *Supermarket News* reports "salty snacks with less salt are entering the mainstream." But, according to the SFA, unsalted snacks still remain a small niche in the market. MM

Military Market index

COMMISSARIES

		APRIL			YEAR TO DATE		
		CY'89	CY'88	% CHANGE	CY'89	CY'88	% CHANGE
	CONUS	$179,840	$171,506	4.86	$680,110	$635,347	7.05
	OVERSEAS	39,686	43,021	-7.75	147,109	143,382	2.60
AIR FORCE	TOTAL	**219,526**	**214,527**	**2.33**	**827,218**	**778,729**	**6.23**
	CONUS	121,590	116,760	4.14	469,775	453,110	3.68
	OVERSEAS	45,045	45,990	-2.05	174,510	175,035	-0.30
ARMY	TOTAL	**166,635**	**162,750**	**2.39**	**644,285**	**628,145**	**2.57**
	CONUS	63,892	60,409	5.77	268,513	255,274	5.19
	OVERSEAS	7,166	7,120	0.65	29,601	28,870	2.53
NAVY	TOTAL	**71,058**	**67,530**	**5.22**	**298,113**	**284,143**	**4.92**
	CONUS	14,634	14,382	1.75	57,017	55,552	2.64
	OVERSEAS	353	324	8.95	1,278	1,216	5.10
MARINE CORPS	TOTAL	**14,987**	**14,707**	**1.90**	**58,295**	**56,768**	**2.69**
	CONUS	260	248	4.84	1,120	1,059	5.76
	OVERSEAS*	406	252	61.11	1,331	1,119	18.95
COAST GUARD	TOTAL	**666**	**501**	**32.93**	**2,451**	**2,178**	**12.53**
	CONUS	$380,216	$363,305	4.65	$1,476,535	$1,400,342	5.44
	OVERSEAS	$92,656	$96,707	-4.19	$353,829	$349,622	1.20
ALL COMMISSARIES	TOTAL	**$472,872**	**$460,012**	**2.80**	**$1,830,364**	**$1,749,964**	**4.59**
GROCERY STORES	*U.S.[1]*	*$26.636*	*$25.118*	*6.04*	*$104.309*	*$97.856*	*6.59*

EXCHANGES

		APRIL			YEAR TO DATE		
		CY'89	CY'88	% CHANGE	CY'89	CY'88	% CHANGE
	CONUS	$323,379	$287,449	12.50	$1,106,985	$1,020,395	8.49
	OVERSEAS	246,605	232,859	5.90	867,653	853,068	1.71
AAFES	TOTAL	**569,984**	**520,307**	**9.55**	**1,974,637**	**1,873,463**	**5.40**
	CONUS[2]	106,520	95,870	11.11	397,488	380,194	4.55
	OVERSEAS[2]	42,961	41,976	2.35	166,156	166,605	-0.27
NAVY	TOTAL[2]	**149,481**	**137,845**	**8.44**	**563,645**	**546,798**	**3.08**
	CONUS	23,817	31,529	-24.46	103,788	113,076	-8.21
	OVERSEAS	3,351	5,353	-37.40	16,574	20,313	-18.41
MARINE CORPS**	TOTAL	**27,168**	**36,883**	**-26.34**	**120,363**	**133,390**	**-9.77**
	CONUS[3]	6,821	6,787	0.50	24,563	24,441	0.50
	OVERSEAS[3]	509	506	0.50	1,831	1,821	0.55
COAST GUARD	TOTAL[3]	**7,329**	**7,293**	**0.50**	**26,393**	**26,262**	**0.50**
	CONUS[3]	1,042	1,276	-18.34	4,171	5,538	-24.68
	OVERSEAS[3]	1,563	1,938	-19.35	6,504	8,204	-20.72
MAIL ORDER	TOTAL[4]	**2,605**	**3,215**	**-18.97**	**10,675**	**13,742**	**-22.32**
	CONUS	$461,579	$422,911	9.14	$1,636,995	$1,543,644	6.05
	OVERSEAS	$294,989	$282,632	4.37	$1,058,718	$1,050,011	0.83
ALL EXCHANGES	TOTAL	**$756,567**	**$705,543**	**7.23**	**$2,695,713**	**$2,593,655**	**3.93**
DEPARTMENT STORES	*U.S.[1]*	*$12.396*	*$11.580*	*7.05*	*$42.943*	*$40.536*	*5.94*

1) SOURCE: U.S. Department of Commerce. 2) Does not include sales of ship stores. 3) MM estimate, based on official data. 4) Includes consolidated sales for all services, including Coast Guard. NOTE: Individual figures may not add to totals because of rounding. All sales are expressed in millions (add 000), except grocery stores and department stores, which are in billions. Commissary sales include appropriate surcharges; exchange sales include concession volume.

* Unusual April increase includes sales to oil spill clean-up volunteers in Kodiak, Alaska, commissary.

** Because of MWR consolidation, Marine Corps exchange sales in 1989 are not comparable to 1988 sales.